

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS
AT SAN ANTONIO

FERNANDO MORALES,

Plaintiff, No. SA:13-CV-01092-DAE

vs.

SQUARE, INC.,

San Antonio, TX
December 5th, 2014

Defendant.

TRANSCRIPT OF MOTION TO DISMISS PROCEEDINGS
BEFORE THE HONORABLE DAVID A. EZRA
SENIOR UNITED STATES DISTRICT JUDGE

APPEARANCES

APPEARING FOR THE PLAINTIFF:

Mr. Matthew Murrell &
Mr. John Hendricks
Reed & Scardino LLP
301 Congress Avenue, Suite 1250
Austin, Texas 78701
512-474-2449
mmurrell@reedscardino.com
jhendricks@reedscardino.com

APPEARING FOR THE DEFENDANT:

Ms. Stefani E. Shanberg &
Mr. Eugene Marder
Wilson, Sonsini, Goodrich & Rosati
One Market Plaza
Spear Tower, Suite 3300
San Francisco, California 94105-1126
415-947-2000
sshanberg@wsgr.com
emarder@wsgr.com

Mr. Michael D. Paul
Gunn, Lee & Cave, P.C.
300 Convent, Suite 1080
San Antonio, Texas 78205
210-886-9500
mpaul@gunn-lee.com

COURT REPORTER:

Kristin M. Anderson, RPR
United States Court Reporter
655 E. Cesar E. Chavez Blvd.
San Antonio, TX 78206
210-244-5048
kristin_anderson@txwd.uscourts.gov

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1 COURTRoom DEPUTY: We have *Fernando Morales vs.*
2 *Square, Inc.*, SA:13-CV-1092.

3 THE COURT: All right. Good morning. Can I have
4 appearances, please.

5 MR. MURRELL: Matthew Murrell for Mr. Morales,
6 Your Honor.

7 THE COURT: All right. Good morning.

8 MR. PAUL: Good morning, Judge. Michael Paul with
9 Gunn, Lee & Cave for Square, Inc. This is Stefani Shanberg a
10 and Eugene Marder with Wilson, Sonsini, Goodrich. And our
11 client back here, Kirupa Pushparaj --

12 | Did I say that right?

13 MR. KIRUPA PUSHPARAJ: Close.

14 MR. PAUL: Close enough, with Square, Inc. He's Head
15 Intellectual Property Counsel for Square. Stefani is from
16 San Francisco, but she grew up here in San Antonio, went to UT
17 to law school, practiced here for a while, and she's back, and
18 happy to have her back, and that's it.

19 THE COURT: Okay. Good.

20 All right. It's your motion.

21 MS. SHANBERG: Good morning, Your Honor. Thank
22 you --

23 THE COURT: Good morning.

24 MS. SHANBERG: -- for the opportunity to hold an oral
25 argument on this motion that's really important to my client,

1 Square.

2 I would like start out for just a moment and talk about a
3 new case from the Federal Circuit, *Ultramercial*, that we
4 submitted on a notice of supplemental authority because I think
5 it's the most recent comment from the Federal Circuit and
6 perhaps the most relevant to today's motion. With the added
7 benefit of the Supreme Court's reasoning in the *Alice* case, the
8 Federal Circuit affirmed the Central District of California's
9 grant of a motion to dismiss on the Section 101 grounds.

10 And perhaps the most interesting part of that case to me
11 is Judge Mayer's concurrence because he goes to great lengths
12 to synthesize the four recent Supreme Court rulings on patent
13 eligible subject matter, and he does so in a way that I haven't
14 seen in the, you know, hundreds of Section 101 cases that have
15 been coming down of late. In his concurrence, he talks about
16 the policy behind Section 101 and how it forms an extremely
17 important gateway to the Patent Act to make sure that an
18 inventor is only entitled to receive the benefit of what his
19 inventive genius actually discovered to make sure that the
20 scope of the claims is commiserate with the technological
21 disclosure in the patent. And he cautions against claims that
22 are overly broad.

23 And that's exactly what we have here. What we have here
24 is an inventor, Mr. Morales, who invented a patent entitled
25 Interactive Television System for Mass Media Distribution. And

1 throughout the presentation today, Your Honor, I have a few
2 boards that I might refer to, and we also have a copy for the
3 bench if you would like to have that closer to you than the
4 board. But this Interactive Television --

5 THE COURT: It might be a good idea.

6 MS. SHANBERG: Okay.

7 THE COURT: You know, back when I was a very young
8 federal judge, I might have been able to read that.

9 MS. SHANBERG: I can't read it, Your Honor.

10 THE COURT: I've been a federal judge for 26 years,
11 and so it's -- I'm not quite -- in those days, I didn't even
12 wear glasses. Now, I have blended bifocals, trifocals.

13 MS. SHANBERG: Right now, and for most of our
14 presentation today, we're actually going to focus on this
15 particular slide that's up here that contrasts Claim 5 and
16 Claim 6, and that's because Claim 5 actually covers what
17 Mr. Morales invented. Mr. Morales' specification explains to
18 us in very clear terms that he invented a television response
19 system in which television viewers are able to respond to
20 things like advertisements and polls and quizzes that are
21 presented in their regular television programming. And, to do
22 that, they use things like a response unit and a local area
23 computer station. It's essentially a Wi-Fi access point.

24 But what Mr. Morales is claiming he's entitled to here is
25 far broader. It's completely different actually than what he

1 invented. And, as you read through all of the 101 cases that
2 have come down recently, something that really strikes me is
3 that I haven't seen another one where the acute technology is
4 so incredibly far afield from the disclosed patented invention.
5 That's the problem here is that my client's products are credit
6 card readers. I don't know if you're familiar with the Square
7 product, but they're extremely popular among small businesses
8 because what they essentially are is a little reader that plugs
9 into a cell phone that allows you to turn any cell phone into a
10 sale unit.

11 THE COURT: Yeah --

12 MS. SHANBERG: Yeah --

13 THE COURT: -- I've certainly seen that.

14 MS. SHANBERG: -- they're -- they're really cool
15 devices that have nothing to do with televisions. And --

16 THE COURT: They use them a lot at farmers' markets.

17 MS. SHANBERG: Yes, exactly. And the driver who
18 brought me in from the airport had one to swipe my credit card.
19 They're becoming ubiquitous, but they have nothing to do with
20 television.

21 So the reason that Mr. Morales is able to maintain this
22 case against my client's product is because Claim 6 is divorced
23 of any context, and it doesn't actually cover what he invented.
24 I think it's really interesting, Your Honor, as I was preparing
25 for this hearing today, I was rereading some of the old

1 Supreme Court cases. There's a case, *Gottschalk vs. Benson*,
2 that talks about a case involving Samuel Morse and his
3 telegraph. And what is fascinating to me about this case, they
4 call it The Telegraph Patent Case, it's from 1854, is that
5 Mr. Morse, we all know, was entitled to a patent covering his
6 telegraph. And he drafted seven claims that covered his
7 telegraph. But he had an eighth claim that the United States
8 Supreme Court, back in 1854, rejected. And they rejected it
9 because he was trying to patent the idea of using
10 electromagnetism to print at a distance but divorced from the
11 context of the telegraph that he had invented.

12 And I warned the court reporter that I have a couple of
13 quotes I want to read from cases that I will go as slowly as I
14 can here. This is the Supreme Court disallowing Mr. Morse's
15 Claim 8, and I think it's extremely analogous to what Square is
16 asking Your Honor to do today. The Supreme Court said, if this
17 claim can be maintained, some future inventor in the onward
18 march of science may discover a mode of writing or printing at
19 a distance without using any part of Mr. Morse's
20 specifications, the instructions that Mr. Morse has provided,
21 but, yet, if it's covered by this Claim 8 in the patent, the
22 inventor could not use it, nor could the public have the
23 benefit of it without paying Mr. Morse.

24 And Supreme Court saw that this was wrong, that this
25 wasn't what Mr. Morse had actually invented but rather was a

1 drafting effort to capture more scope than what he had actually
2 disclosed. And the Supreme Court said no. And that was back
3 in 1854, and the same concerns belie our patent system today.

4 Here we have Claim 5 versus Claim 6. And in Claim 5 of
5 Mr. Morales' patent, he includes context. He includes normal
6 television or radio programs as part of the claim. He includes
7 audible beeps as part of the claim. He talks about the
8 questions that are going to be sent to television users, and he
9 talks about the data center as an audience response data center
10 as opposed to just a generic data center. Claim 5 is limited
11 to Mr. Morales' specification. It's limited to what he
12 actually contributed to the art. Claim 6 is not. Claim 6 has
13 none of that context.

14 So, at this point, Your Honor, I was thinking of jumping
15 into applying the two part Alice Test to Claim 6 unless you
16 have any questions.

17 THE COURT: Not at this point. I do have a question
18 for you, but I'll wait until you're --

19 MS. SHANBERG: Okay.

20 THE COURT: -- you're done.

21 MS. SHANBERG: Thank you, Your Honor.

22 So, as you know, I'm sure, you know, in the Alice Test,
23 the Supreme Court set forth a two-part test for patent subject
24 matter eligibility. It didn't actually change the law, it
25 didn't actually change the world, but it made it clear for the

1 first time. Prior to the Supreme Court's decision in *Alice*,
2 the district courts, as well as the Federal Circuit, were
3 fractured in how this problem should be analyzed. But now with
4 the added benefit of the Supreme Court's clarity about what
5 test applies, we can pretty easily and in a pretty
6 straightforward manner apply that test to Claim 6.

7 The Supreme Court unfortunately stopped short of actually
8 delineating what they considered to be an abstract idea. As
9 many district courts, Judge Brinkema looked at this issue in
10 cases almost identical to the facts here called *Amdocs*. Many
11 courts have said that, you know, perhaps the reason the Supreme
12 Court was quiet on the subject is because it's actually quite
13 broad what constitutes an abstract idea. But they left
14 district courts with the challenge of determining what
15 constitutes an abstract idea by analogizing to other abstract
16 ideas. Which I'm sure, Your Honor, as you read through the
17 briefs, realized it is somewhat of a pain because there are so
18 many cases relating to Section 101 that have come out of late.

19 So we highlight in our brief cases that we think have the
20 most analogous claims to the claim as you hear, Claim 6. In
21 looking at those cases, it's very clear that what you're
22 supposed to do is essentially find the heart of the invention
23 as the abstract idea. It's essentially what the claim is
24 directed to accomplish. And then everything else, the
25 implementation of that abstract idea, is dealt with in Prong 2.

1 So here we've identified, and it's in our brief, the
2 relaying a unique signal containing a sender's identity is the
3 abstract idea. And, of course, Your Honor probably recognizes
4 that could apply to, you know, Morse Code. It could apply to a
5 telephone with caller -- caller ID. But that's the direct --
6 you know, that's what Claim 6 is directed to is relaying a
7 signal containing a sender's identity --

8 And then the next thing the Supreme Court tells us to look
9 at in *Alice* is whether anything meaningful is added. And *Alice*
10 called it whether there's an inventive step that's added to the
11 claim. Judge Mayer in *Ultramercial* calls it the technological
12 arts test. And I actually like the way that Judge Mayer
13 analyzes this perhaps best because what he focuses on is the
14 scope of the claims and whether or not they're commiserate with
15 the technological disclosure, whether when you read the
16 specification you understand what the inventor has invented and
17 whether the claims only cover that.

18 He says that the concern he has is a relative one. He
19 wants to know how much future innovation is going to be
20 foreclosed relative to the contribution of the inventor as
21 defined by the patent. Here, again, Claim 5 reflects the
22 patent technological disclosure and Mr. Morales' contribution
23 to the art, but Claim 6 does not. And *Alice* makes clear that
24 Claim 6 has to have this inventive concept that ties it to the
25 technological disclosure in order to be valid.

1 Mayo is another very relevant case here. That's another
2 Supreme Court case of recent. And Mayo talks about how well
3 understood and routine conventional activity cannot confer
4 patent eligibility. We cover this in a lot of detail in our
5 brief, so I'm not going to belabor the point here. But the
6 bottom line is that Mr. Morales failed to identify any of his
7 inventive steps in Claim 6. He doesn't talk about the
8 television or radio programming. He doesn't talk about
9 responding to a question. He doesn't talk about the audience
10 response data center, among other things.

11 I think the case that is most relevant here is *Eclipse IP*.
12 That's a Central District of California case cited in our brief
13 from earlier this year. And, in that case, the Central
14 District of California granted a motion to dismiss in a case
15 very similar to ours because the claim at issue was stripped of
16 all context that the specification would have provided, and
17 that's exactly our complaint here. Because Claim 6 is stripped
18 of context, it allows Mr. Morales to expand his alleged
19 monopoly to products that have nothing to do with what he
20 invented.

21 I could go on for hours, but I figure --

22 THE COURT: Days.

23 MS. SHANBERG: -- I'll --

24 THE COURT: Days.

25 MS. SHANBERG: -- but I will stop here and see if

1 you've got questions. You know, there are a number of issues
2 that -- that perhaps might come up. I would like to reserve
3 some time to talk after the argument of opposing counsel --

4 THE COURT: You know, I just got back from sitting on
5 the Ninth Circuit Court of Appeals, which I do regularly, and
6 this isn't the Court of Appeals, so I'm not going to hold you
7 to five minutes or --

8 MS. SHANBERG: Thank you.

9 THE COURT: -- ten minutes or cut you off in the
10 middle of a sentence or something.

11 MS. SHANBERG: Thank you, Your Honor. And we also
12 think this is relatively straightforward and spelled out in our
13 briefs, and, you know, don't want to belabor any points that
14 Your Honor is not interested in.

15 THE COURT: Let me ask you about this. Counsel --
16 and I'm sure I'm going to hear it from him when he stands up,
17 is arguing that your motion is premature and the Federal
18 Circuit has made some pronouncements, which they have, that 101
19 analysis shouldn't really be undertaken as a general rule, they
20 should -- they don't say in all cases for sure, but, as a
21 general rule, until you've had some opportunity to develop the
22 facts more thoroughly.

23 MS. SHANBERG: Okay. So, Your Honor --

24 THE COURT: You know that line of cases?

25 MS. SHANBERG: I -- I am familiar with the cases they

1 rely upon --

2 THE COURT: Right.

3 MS. SHANBERG: -- for that proposition, but that is
4 the vacated *Ultramercial* decision. That decision went up to
5 the Supreme Court. It was vacated. That's absolutely an
6 outlier position.

7 In our briefs, we cite a number of cases that hold that
8 you actually don't need to go to the expense and burden of
9 claim construction and discovery in order to decide a 101
10 issue. When *Ultramercial* went back before the appellate
11 circuit -- so *Ultramercial* is the case they rely upon for the
12 proposition, went up to the Supreme Court, got vacated, went
13 back to Federal Circuit. *Ultramercial*, that we submitted on
14 our notice of supplemental authority, does not so hold. That
15 the law they cite is bad. *Ultramercial* is the latest statement
16 from the Federal Circuit on the subject and should --

17 THE COURT: Excuse me.

18 Excuse me, sir. You're the client; aren't you?

19 MR. HENDRICKS: No, sir.

20 THE COURT: Well, why don't you sit up here with your
21 lawyer?

22 MR. HENDRICKS: I have not made an appearance in this
23 case.

24 THE COURT: Aren't you a client -- aren't you the
25 client?

1 MR. MURRELL: No, he's co-counsel.

2 THE COURT: Oh, you're co-counsel. Sit up here.

3 It's all right.

4 MR. HENDRICKS: Thanks.

5 THE COURT: Now, who are the lady and gentleman in
6 the back.

7 MS. SHANBERG: You know what, Your Honor, it's my
8 parents. I have not had a hearing in San Antonio, Texas, in
9 the 16 years I've been practicing law. So I figured we would
10 take this opportunity to allow them to join us.

11 THE COURT: Well, I think that's wonderful.

12 MS. SHANBERG: My father is an attorney here in town,
13 and I couldn't -- I couldn't say no.

14 THE COURT: I'm the father of two -- three daughters,
15 two -- two of whom are attorneys. So I'm very sympathetic to
16 that. I would certainly be --

17 MS. SHANBERG: Thank you, Your Honor. It's --

18 THE COURT: -- I would certainly be here as well.

19 MS. SHANBERG: It's the first time this has -- this
20 has happened, but I figured it's not going to be everyday that
21 I have a hearing in San Antonio, Texas, so --

22 THE COURT: Well, yeah. You're lucky. Hearing wise,
23 you're lucky you're before this judge because most of the
24 judges here in federal court, as your father, if he practices
25 law here, I don't know, is well aware do not have hearings even

1 in these cases.

2 MS. SHANBERG: Yeah, I know. I really appreciate the
3 opportunity.

4 THE COURT: There is no -- I sit frequently in
5 Austin --

6 MS. SHANBERG: Okay.

7 THE COURT: -- as well, and they don't have hearings
8 up there. I'm the only one who has hearings up there. It's
9 amazing. I don't know. I -- it's just -- I guess it's a --
10 I'm not criticizing, but I find it very helpful, and I think
11 it's very satisfying for a client to have the opportunity to
12 have their lawyer argue their position rather than just submit
13 it on the papers. And, you know, at the Court of Appeals, you
14 get an argument normally, not always, sometimes things are so
15 clear that we submit them on briefs, but I do think it's
16 helpful.

17 MS. SHANBERG: Thank you, Your Honor.

18 THE COURT: All right. Go ahead. You --

19 MS. SHANBERG: Yes. Going back to *Ultramercial*, when
20 it went back down to the Federal Circuit, they expressed no
21 such concern. And, in concurrent opinions, Judge Mayer writes
22 that the -- this is actually I think really important in
23 Judge Mayer's opinion, he says that whether the claims meet the
24 demands of Section 101 is a threshold question that should be
25 determined at the outset of the litigation. And he's not alone

1 in that. There's so many courts that have said the same thing.
2 He calls Section 101 a gateway to the Patent Act. And he says
3 that there are a number of different really good reasons for
4 this, for courts to decide 101 motions at the stage of the
5 pleadings. He says that it conserves the court's judicial
6 resources, which we, of course, recognize are involved in
7 claims construction and any kind of summary judgment hearing.
8 He says that exposing basic deficiencies in a patent claim
9 early in a case, the point of minimum expenditure by the
10 parties is also a benefit --

11 THE COURT: Okay. You got to slow down slightly.
12 You're going to burn her out.

13 MS. SHANBERG: And then Judge Mayer actually gets
14 into the policy behind the recent 101 cases in which the
15 Supreme Court has every single time, you know, dialed in a
16 stricter standard for patent eligibility saying that resolving
17 eligibility at the outset of these cases is a bulwark against
18 fictitious infringement suits. And that's, frankly, what we
19 see this as. He talks about -- and, you know, Your Honor
20 doesn't sit in the Eastern District of Texas, so you don't see
21 as many of these, but he talks about the scores of --

22 THE COURT: Thank goodness.

23 MS. SHANBERG: -- he talks about the scourge of
24 meritless infringement claims, and the enormous sums of money
25 it costs to defend against them. And he says, you know,

1 addressing Section 101 at the outset thwarts the attempts that
2 some patent owners will put forth to extract settlements that
3 essentially cost less than what it costs to defend these cases.

4 He also says that, you know, claim construction is not
5 necessarily required. That a lot of these claims, and almost
6 all of the claims that have been determined invalid in the wake
7 of *Alice*, can be determined invalid on their face. And he says
8 that, determining these cases -- the Federal Circuit said,
9 determining these cases at the outset protects the public from
10 defective patents. And he also says that, you know, protecting
11 the public from these types of, you know, attempts to
12 monopolize broader scopes than what is actually claimed, you
13 know, is an incredibly important policy initiative behind the
14 Patent Act. And he says, it's just as important as making sure
15 that an inventor of a truly valuable invention has the benefit
16 of his monopoly.

17 All of these same concerns apply here. We have extremely
18 costly invalidity contentions due in ten days, discovery is
19 underway in this case, and, you know, we maintain that there
20 are no issues of claim construction. The invalidity of the
21 claim is clear on its face. There are no issues for discovery
22 that bear on this issue in any way, shape, or form. And that
23 this is, you know, wholly appropriate for deciding right now.

24 I will also point Your Honor -- point Your Honor to the --
25 our reply brief to defendant's opposition -- I'm sorry,

1 plaintiff's opposition, at Pages 7 and 8, where we cite a whole
2 slew of cases that have decided Section 101 at this stage on
3 the pleadings of the case.

4 THE COURT: Okay. All right. Why don't you take a
5 seat, and I'll give him a chance. And then I will give you the
6 opportunity for a brief rebuttal. All right?

7 MS. SHANBERG: Thank you, Your Honor.

8 THE COURT: All right.

9 Good morning, Counsel.

10 MR. MURRELL: Good morning, Your Honor. My name is
11 Matthew Murrell with Reed & Scardino. With me is co-counsel
12 John Hendricks for Mr. Morales. I am also thankful the Court
13 decided to have an oral argument because this is my first oral
14 argument ever. The last time I was in San Antonio was as a
15 high school speech debate coach coaching students at --

16 THE COURT: Where is your office?

17 MR. MURRELL: In Austin.

18 THE COURT: Oh, you're in Austin. Well, you can come
19 see me in Austin. At least my chambers there, unlike my
20 chambers here, has windows.

21 MR. MURRELL: Oh, that's great. We were commenting
22 on --

23 THE COURT: In Honolulu, where I was for 25 years as
24 a federal judge, I had panoramic windows overlooking Honolulu
25 Harbor. So this is -- somebody told me I should have taken a

1 photograph and then had it blown up and put on the wall.

2 MR. MURRELL: That might be true, Your Honor.

3 I would like to start with the same topic that -- that the
4 defendant started with which is the law, and we actually think
5 that the case is clear. And we also think that *Morse*, in a
6 particular case that they didn't talk about, but it's talked
7 about a lot in the papers, *In re Nuijten*, are especially
8 persuasive here. In *Morse*, specifically, as Ms. Shanberg
9 noted, the Supreme Court held that you could not patent a
10 signal, a particular -- this eighth element of the -- this --
11 this eighth claim in the patent so --

12 THE COURT: Well, let me ask you -- let me ask you a
13 question. If your position is correct, then why is it that
14 when I go to Target, or you go to Target, for instance, or
15 Sears, or anyplace else, and swipe a credit card at the
16 terminal, we are not -- that company is not in violation of
17 your client's patent?

18 MR. MURRELL: For several reasons, Your Honor. And I
19 can jump into the facts immediately. If you want to look at --

20 THE COURT: Well, let's get right to it because it
21 seems to me that this is analogous --

22 MR. MURRELL: Well, we would argue it's dis-analogous
23 for a few reasons --

24 THE COURT: -- because what we've got here is we have
25 a terminal, essentially, that sticks on top of your, or on the

1 bottom, depending upon the model of cell phone you have, and
2 they swipe a card, a credit card, and it takes a payment. So
3 what's the difference?

4 MR. MURRELL: Well, the first difference is that the
5 defendants are asking you to look at Claim 6 in the patent and
6 make a lot of factual determinations and claim constructions
7 based on that. To begin, if you'll look at the language, maybe
8 on the slide that they gave you, there's -- there's different
9 pieces of hardware. Number one contains an electronic device.
10 Number two and three contain a response unit. Three, four, and
11 five all contain a local area repeater station, and five
12 contains a data center. They want you, as the top of the slide
13 says, to strip away all context to determine that all four of
14 those -- those things mean nothing, and that the patent is
15 trying to claim something in the raw, like Morse's signal or,
16 again, *In re Nuijten*, just the signal.

17 But the important distinction is what those courts have
18 said, when a patentee is trying to claim something so broad,
19 the *Morse* court, for example, said if this claim can be
20 maintained, it matters not by what process or machinery that
21 result is accomplished. And, again, the machine or
22 transformation test has been vacated. But the *Morse* court
23 said, you're trying to claim this abstract thing on board to
24 any type of machinery at all. Now, that's been updated because
25 that case is 150 years old. But the point is that in asking

1 you to look at *Alice* and other cases to determine that this is
2 an abstract idea with no machinery that's not transformed in
3 any way, they're asking you to construe those different pieces
4 of hardware to make them meaningless.

5 THE COURT: Do Amazon and Netflix license their -- or
6 Roku license their services from your client?

7 MR. MURRELL: I'm not aware of that, Your Honor.

8 THE COURT: All right. Because they can do exactly
9 or virtually the same thing with a -- with a remote control.
10 If you have a Roku player, a remote control, I don't know
11 whether you do or you don't, a lot of people do, and you go on
12 Roku, or you get to the Amazon ap, and you want to watch a
13 movie, you can rent that movie, or you can purchase that movie
14 using the remote control which then sends a signal through a
15 repeater to a terminal which then charges your credit card on
16 file with Roku, and you pay for the movie. What's the
17 difference?

18 MR. MURRELL: Well, Your Honor, I would argue that
19 there's not a demonstration in that instance that these five
20 unique steps of the process are occurring in that instance.
21 And to determine that those are occurring, to determine that
22 Roku -- the Roku device is receiving an audio -- audio signal,
23 and generating a unique signal, which is step one, to determine
24 whether --

25 THE COURT: Well, I would hope they would be or else

1 my credit card information would be flying all over the
2 universe, which it may be anyway, but --

3 MR. MURRELL: Well, Your Honor, I -- I would say, in
4 that instance, I would have to, again, for 12(b)(6) purposes,
5 we can't do the factual inquiry that we -- we would need to do.
6 But, in that instance, I would argue that the audible signal
7 may be -- be present there. One unique thing about the Square
8 device is that the Square device plugs not into the proprietary
9 port of the cell phone but into the audio port of a cell phone.
10 And if the Square -- the little Square reader converts the
11 magnetic swipe into an audible signal and --

12 THE COURT: Is there a similar device plugging into
13 anything in your client's patent?

14 MR. MURRELL: No, Your Honor.

15 THE COURT: All right. I didn't think so.

16 MR. MURRELL: I mean not -- not similar in the sense
17 that it doesn't look like a Square reader, but it is --

18 THE COURT: It doesn't -- it doesn't operate like a
19 Square reader either; does it?

20 MR. MURRELL: Well, that -- not -- the other claims
21 don't --

22 THE COURT: I mean when somebody -- when somebody --
23 excuse me. When somebody uses -- they used to have these
24 devices, I'm old enough to remember them, when -- where you
25 would have a credit card slide on a remote control, and that

1 would be very much like a Square reader. And you would then
2 swipe your credit card on the remote control, and then that
3 would get transmitted through some form or fashion, and you
4 would get charged. That isn't what goes on now with most
5 remote controls, that I'm aware of, for many reasons,
6 principally, because it would delimit, significantly, the
7 incentive for people to go ahead and rent movies. Because when
8 you have to pull out a credit card, you think to yourself, oh,
9 do I really want to spend 4.99 to rent this movie. And where's
10 your credit card. And you're searching for your wallet in your
11 purse to get your credit card, and then, by that time, you
12 probably say forget it.

13 It's much easier just to get into the -- the ap. You
14 don't see it, you don't touch a credit card, and you push the
15 button, and there it is. And so that technology is obsolete,
16 essentially, from a benefit standpoint to the -- to the
17 companies that want you to spend that money to rent that video
18 or to buy it.

19 MR. MURRELL: Sure.

20 THE COURT: What you've described to me, basically,
21 doesn't have the Square technology. What you've described to
22 me is a very general process because the Square technology
23 requires, requires, we're not talking about this new Apple Pay
24 thing, where you just, you know, blue tooth it next to the
25 register, and it -- and it clicks in.

1 What we're talking about is a requirement that somebody
2 pull out a credit card and slide it through the mini terminal,
3 which is hooked to your cell phone. That has nothing to do
4 with what your client patented. Your client's patent doesn't
5 have or require any type of physical activity of that kind or
6 any transmittal of information of that kind.

7 MR. MURRELL: So two responses to that -- to that,
8 Your Honor. The first is that is an infringement question that
9 is completely inappropriate to address here at this stage. I
10 appreciate --

11 THE COURT: Well, it goes to -- Counsel, look, this
12 isn't my first --

13 MR. MURRELL: Sure.

14 THE COURT: -- merry-go-round. If you've done your
15 homework on me, you know I've handled a lot of patent --

16 MR. MURRELL: Yes, Your Honor.

17 THE COURT: -- cases, and I try to be careful. Knock
18 on wood, I've been pretty successful at the Federal Circuit and
19 that could change here but hopefully not. But, you know, what
20 I'm looking for is a determination, and the whole point of this
21 motion is whether we have something which is even patentable to
22 the degree that you're seeking the -- I mean the expansive
23 nature of your patent. That's the whole issue here under 101.

24 MR. MURRELL: I agree, Your Honor.

25 THE COURT: So that is the issue.

1 MR. MURRELL: I agree that the scope of the claim is
2 the issue. The problem that I have that returns to what we
3 talked about before is that they're asking you to -- again,
4 this is not an apparatus, so it doesn't need to look like the
5 device. It's not a device. It's a method with five steps.
6 And the Court in the *Morse* decision, in *Alice*, and -- and the
7 Federal Circuit in *In re Nuijten* have specifically said that
8 where there is an abstract idea, like in *In re Nuijten*, the
9 2007 Federal Circuit case that both parties talk about in their
10 papers, the patent he tried to claim is a signal. And the
11 Federal Circuit said there, specifically, you can't get the
12 signal. However, if the signal was part of a traditional
13 step-by-step process, or there was an apparatus that was
14 generating, receiving, processing, or storing that signal, then
15 that's something that could be patent -- patentable.

16 And that is our argument, Your Honor, is that there is a
17 five-step process here. They want to claim that this preempts
18 everything. But in order to get to that conclusion --

19 THE COURT: No, no, you want to claim it preempts --

20 MR. MURRELL: No. No, they claim that it preempts
21 all signal processing and e-mail and telephone. They say that
22 in their -- in -- in their motion. They say that this is so
23 broad that it would preempt all of those things.

24 THE COURT: Oh, I see what you're saying --

25 MR. MURRELL: It would capture all of that.

1 THE COURT: -- we're saying the same thing in a
2 different way.

3 MR. MURRELL: Right. Yeah.

4 THE COURT: That's -- I'm struggling with trying to
5 figure out what type of electronic payment activity wouldn't be
6 covered under your client's patent if I accept your argument.

7 MR. MURRELL: Well, I think that there would be --

8 THE COURT: I'm struggling to figure it out
9 because --

10 MR. MURRELL: -- I think that there would be several
11 types of -- of payment technology --

12 THE COURT: Like what?

13 MR. MURRELL: -- that would use -- for example, when
14 you argued -- or when you gave an example earlier of how
15 we've -- as -- as a society, we've moved away from swiping
16 credit cards. If there were a transaction where somebody typed
17 in their credit card number and --

18 THE COURT: Here, let me give you the example that
19 I'm thinking of that is still, to some degree, in use. It's
20 going out but to some degree in use.

21 Fly in an airplane, right, you're on a plane --

22 MR. MURRELL: Okay.

23 THE COURT: -- and you want to watch Direct TV.
24 Let's say you're not in First Class. Let's say you're not a
25 partner in a good law firm. You're a federal judge, and you're

1 sitting back in coach, and you want to watch Direct TV. They
2 have that little phone thing which you pull out and you have to
3 swipe your credit card --

4 MR. MURRELL: Okay.

5 THE COURT: -- and that gets electronically
6 transmitted virtually the same way that Square's does.

7 MR. MURRELL: I don't know if we can make that
8 determination at this point, Your Honor, because you would have
9 to presuppose that that device --

10 THE COURT: Well, it certainly doesn't stay in the
11 phone.

12 MR. MURRELL: But you would have to presuppose that
13 these five steps are happening. So, in that instance, you
14 would have to assume that when the flight attendant swipes
15 the -- the card --

16 THE COURT: No, no, no. Wait a minute. I'm not
17 talking about the flight attendant's use of -- well, that's
18 another -- that's another great example actually. The flight
19 attendant swipes your credit card on a mobile device in order
20 to have you purchase a sandwich or something; right?

21 MR. MURRELL: Right.

22 THE COURT: That's not what I'm talking about, but
23 although it's quite similar, I'm talking about the device that
24 we -- we've seen recently on the backs of -- you know, where
25 you --

1 MR. MURRELL: Sure.

2 THE COURT: -- swipe the thing, or it's in the
3 handset, and you swipe it, and then you can watch Direct TV --

4 MR. MURRELL: So --

5 THE COURT: -- or whatever.

6 MR. MURRELL: -- so the argument would be the same,
7 Your Honor, we don't know how that device works. So, for
8 example, when you swipe the credit card, we don't know if that
9 device is receiving -- is generating a unique signal by
10 receiving an audible system. That is, we don't know if that
11 device is converting that credit card swipe into an audible
12 signal. We know the Square device does that. So that's one
13 limitation.

14 The second limitation is, again, without an audible
15 signal, we don't know if that device is performing the second
16 step of the method, which is combining the received signal with
17 a unique identifier of the response unit. Now, I would argue,
18 to -- to go back to the other examples you talked about, lots
19 of those devices we don't know if the way -- if the step in
20 processing a credit card transaction is receiving an audible
21 signal, which is a great limitation and the -- and the marking
22 limitation on this.

23 They want to argue that applies to everything. We just
24 don't know that. The uniqueness of the Square device is that
25 it doesn't transmit in a data form. It transmits into an

1 audible form. And we have, again, a 12(b)(6), you're not
2 supposed to talk about evidence, but Square engineers talk
3 about how that when you swipe that credit card, it converts it
4 into a wave file, and it converts it into audio. And that's
5 what's unique about Square that -- that may or may not be
6 present in these other devices. But my point is we would have
7 to conduct --

8 THE COURT: I don't know if it's that unique about
9 Square. I mean that's the way fax machines operate.

10 MR. MURRELL: But the -- the point is that we would
11 have to conduct a factual inquiry, number one. Number two, we
12 would have to construe these claims, and we would have to look
13 at all of this outset evidence which the Federal Circuit says
14 we just can't do it, 12(b)(6).

15 Now, they've argued that there are some cases where
16 12(b)(6) -- that the Federal Circuit and district courts have
17 allowed it at this stage, and while that's true, in those
18 cases, there wasn't a question where you had to make these
19 factual determinations. And in most of those cases where it
20 failed at *Alice* Step 2, which is, is there a machine or is
21 there an inventive aspect, i.e., is there a machine that
22 transforms this. The machine quite obviously was a computer.
23 We have several machines in here that you would have to -- to
24 determine are computers that don't transform this abstract idea
25 at Step 1 into an inventive aspect -- a patentable invention at

1 Step 2.

2 And I think *Morse* and *In re Nuijten*, when you get into the
3 weeds of those cases, would be incredibly difficult to
4 distinguish for opposing counsel. And if you were writing an
5 opinion, *In re Nuijten* is a fantastic case for us because in
6 that instance the Federal Circuit has said you don't get to
7 patent a signal, but you can patent processing the signal. You
8 can patent apparatuses and other things doing the signal. You
9 can patent a traditional step-by-step process that uses a
10 signal. You don't get the signal itself. And I think that
11 that is incredibly informative. If the Court needs to go
12 further to make a determination here, to construe these terms,
13 to look at outside devices, like the Roku device, or like a
14 headset on the back of an airplane, that's a factual inquiry
15 that is impermissible at the 12(b)(6) stage.

16 THE COURT: Okay. Thank you very much, and I
17 understand your argument.

18 All right, Ms. Shanberg.

19 MS. SHANBERG: All right. I'll be brief, Your Honor.
20 So, first of all, we think that you've honed in on
21 precisely the important question which is how much future
22 innovation may be foreclosed relative to the contribution of
23 the inventor. So whether or not each of the different devices
24 infringes is -- is, you know, obviously, not something we -- we
25 are specifically talking about today. We're more talking about

1 it in context. You know, Claim 6 is a -- is about the -- you
2 know, about the lack of context in Claim 6. I mean we're
3 talking about the possibility that Claim 6 could foreclose all
4 of those things that Your Honor brainstormed. And that's
5 precisely what the Federal Circuit has cautioned us we should
6 not allow a claim to do.

7 Mr. Morales is no stranger to patent litigation. He has
8 around 16 patents. He's been involved in a lot of patent
9 litigation. And he -- he knows exactly what he's got here in
10 Claim 6. There are letters in the record from the Northern
11 District of California case that was dismissed where
12 Mr. Morales talks about how broad his patent is. And he
13 giddily talks about how it covers everything. So, you know,
14 Mr. Morales might not agree with his counsel that those things
15 are distinguishable from Claim 6.

16 In addition to that, you know, the only factual issue that
17 I actually heard opposing counsel mention in any level of
18 specificity is audible signals. And audible signals simply
19 cannot be the inventive concept in this case. Audible signals
20 are discussed throughout the file's history, which Your Honor
21 could take judicial notice of, but I don't think it's necessary
22 today, as being something that were ubiquitous in the prior
23 art, and they're ubiquitous in technology today as well. So we
24 think Your Honor has honed in on exactly the right inquiry. We
25 think Mr. Morales certainly reads claim stakes as broadly as

1 Your Honor sees it.

2 *In re Nuijten* has nothing to do with this. We talk about
3 it in our reply brief. The test for a patent eligibility is
4 actually a longer test than what we have to look at today. You
5 know, first you look to see if something is a process or a
6 composition of matter that is actually patentable. Then you
7 look to the exceptions. Today we're talking about the abstract
8 idea exception to patentability. *Nuijten* is way up at that top
9 level. And what they said is a signal by itself is not
10 patentable. And the reason we cited that case was to say that
11 the signal can't be the inventive concept in this claim. We
12 didn't cite this case to say, you know, that *Nuijten* tried to
13 patent a signal, and it was rejected. It's actually used for a
14 very different purpose --

15 THE COURT: Hence --

16 MS. SHANBERG: -- and on a very different point.

17 THE COURT: -- let me -- let me ask you this. And I
18 haven't gotten that deep into it, but I will. Has this
19 particular patent been tested previously in federal court?

20 MS. SHANBERG: Not this patent, no, Your Honor.

21 THE COURT: Okay. I see.

22 MS. SHANBERG: Others of Mr. Morales' patents have,
23 but not this one.

24 THE COURT: All right.

25 MS. SHANBERG: And then the last thing I want to

1 leave you with, and this is --

2 THE COURT: That's too bad.

3 MS. SHANBERG: This is his first, Your Honor.

4 Truly, the last thing that I want to leave you with --

5 THE COURT: I always ask that question. I never get
6 a positive answer unfortunately.

7 MS. SHANBERG: Right.

8 Now, the District of Delaware actually found one of his
9 other patents invalid but not this one.

10 The last thing I want to leave with Your Honor is the
11 *Amdocs* case. It's *Amdocs vs. Openet Telecom*, and it's from
12 Judge Brinkema in the Eastern District of Virginia. It's not
13 in our brief because it's just from October 24th, 2014. And
14 Judge Brinkema had looked at, I'm not kidding you, the
15 identical issues that we're presenting to you here today. So I
16 would like to leave you with that case cite, and then I'll wrap
17 up unless you have any questions. That is 2014, WL 5430956.

18 THE COURT: Okay.

19 MS. SHANBERG: Thank you, Your Honor.

20 MR. MURRELL: When the Court turns to its research,
21 I'd like to provide two citations. The citations are *In re*
22 *Nuijten* is 500 F.3d at 1351. And that's the specific claim
23 which -- that says you can get a process, a traditional process
24 or an apparatus that -- that processes or does a method. You
25 don't get the signal itself. And we think that that's

1 informative.

2 And the other is the *Prometheus* case, 132 Supreme Court at
3 1293, and that says that you can't strip away all of these
4 limitations and all of these things to get to the heart of
5 invention and only look at the heart of the abstract idea
6 because you could do that with every patent, and, at this rate,
7 patent law.

8 And my final words, I'll just remind the Court when it --
9 when it turns to -- to truly deliberating on this, 101 is about
10 patent eligibility. It is not about infringement. It's not
11 about the scope of the claims. It's not about devices out in
12 the world that aren't accused that it would cover. It's about,
13 on the face of the patent, is it an abstract idea that is not
14 transformed into an inventive idea.

15 Thank you, Your Honor.

16 THE COURT: Ms. Shanberg, you actually, technically,
17 get the last word. Do you have anything else to add?

18 MS. SHANBERG: I have nothing further to add,
19 Your Honor. Thank you for allowing us oral argument today.

20 THE COURT: That's all right.

21 All right. Well, I have actually looked into this, and my
22 law clerk, Peter, here has gotten a big headache over this
23 already. He started to look into the law and -- but I'm going
24 to take another very hard look at this. These cases, unlike a
25 good portion of the cases which I decide, which, for whatever

1 reason, don't go up on appeal, almost all of these patent cases
2 end up in the Federal Circuit. And so I try very hard to make
3 sure that in deciding it, first of all, that I'm right. I try
4 to do that in every case obviously. But I also try very hard
5 to make sure that I put out a written reasoned order and not
6 just for the parties' benefit but also so that the judges of
7 the Federal Circuit have my reasoning in some detail, and they
8 can either agree or disagree with me, but at least they'll know
9 what I did. I don't -- I don't simply rule off the cuff or put
10 out a three-line order. I think that's not very helpful to
11 either side.

12 I will try to get this out as quickly as I can.
13 Unfortunately, you probably know, or maybe you don't know, we
14 are either the busiest or the second busiest district in the
15 United States which is why I'm here. This is not the senior
16 judgeship I had envisioned. I have a full criminal and civil
17 caseload here, plus I have cases in Del Rio, where I just
18 returned, and I have cases in Austin, and a pretty good chunk
19 of cases in Austin. And they're all civil cases in Austin.
20 And that's not your problem. That's my problem. But it does
21 play, to a degree, on how quickly I can get this out.

22 Now, that having been said, I'm usually pretty quick, but
23 this is a complex issue. These patent cases are not to be, you
24 know, trivialized. You know, there is a high percentage of
25 district court cases that get reversed in the federal circuit.

1 I think even higher than the Ninth Circuit which is pretty
2 high, and I think the reason for that is because these are
3 tough cases, you know. And a lot of these cases, these patent
4 cases, turn on -- to a degree, on the context, and one judge
5 will look at it one way, and another judge will look at it
6 another way.

7 And so the best I can do for the parties is to look at it
8 as carefully as I can. I certainly appreciate your arguments.
9 I think both of you did as well as anyone. I don't think I --
10 I mean I've had some of the most experienced patent attorneys
11 in front of me in the United States. I just got affirmed in
12 the Federal Circuit in a case involving one of the largest
13 internet gambling patent cases ever in Las Vegas. And I had
14 extremely experienced patent counsel there in that case. I
15 don't think their arguments were any better than the arguments
16 I heard, you know, today. So you -- both of you did an
17 excellent job. Don't be put off by questioning. It shouldn't
18 signal one way or the other how I'm going to rule. I was an
19 adjunct professor for 34 years, and I ask questions.

20 So I want to thank you. I hope you have a happy holiday.
21 Hopefully, I will get this out before the end of the year. I'm
22 going to work real hard to try to do that. If not, it should
23 be in early January. I'm not going anywhere so -- but,
24 unfortunately, my law clerks are fortunately. They would like
25 to see their families, and they do help me with the research on

1 this. And so we're going to try to get it out, but we're
2 running right up against the holidays as you know. So we'll
3 see. If we don't get it out before the end of the year, we'll
4 get it out early in January. You can go from there one way or
5 the other. Okay.

6 All right. Thank you very much. I appreciate your
7 arguments.

8 Do you need this back, Counsel?

9 MS. SHANBERG: No.

10 THE COURT: No. Okay.

11 MS. SHANBERG: It's yours to keep, Your Honor.

12 THE COURT: All right.

13 COURT SECURITY OFFICER: All rise.

14 (Whereupon said Motion to Dismiss proceedings
15 concluded.)

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C E R T I F I C A T E

I, Kristin M. Anderson, a Registered Professional Reporter, and Official Court Reporter for the U.S. District Court, Western District of Texas do hereby certify:

That the foregoing is a true and correct transcript of the proceedings transcribed from my stenographic notes in the above-entitled matter;

That I am not a relative or employee or attorney or counsel of any of the parties, or a relative or employee of such attorney or counsel, or financially interested in the action.

WITNESS my hand on this 15th day of December, 2014.

/s/ Kristin M. Anderson
Kristin M. Anderson, RPR
United States Court Reporter
655 E. Cesar E. Chavez Blvd.
San Antonio, TX 78206